HOUSING MARKET OUTLOOK

Winnipeg CMA

Canada Mortgage and Housing Corporation

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NEW HOME MARKET

Housing starts to decline in 2009, but growth returns in 2010

Housing starts across the Winnipeg Census Metropolitan Area (CMA) will decline by 27 per cent in 2009, reaching 2,200 units before re-bounding seven per cent to 2,350 units in 2010. Both the single-detached and multi-family sectors will experience declines in 2009 as rising inventories and cautious buyers impact builders' production decisions. As a result, housing starts will temporarily fall below the rate of household formation for the forecast period.

Through the first four months of 2009, starts are lagging 37 per cent behind the same period in 2008. Some of the discrepancy can be attributed to the flooding that has occurred along the Red River Valley, limiting starts activity in the Rural Municipalities (RMs) immediately to

Figure 1

Source: CMHC, CMHC Forecast (f)

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the North and South of Winnipeg. These RM's had accounted for as much as 30 per cent of the single-detached activity on the CMA in the third quarter of 2008, when such activity reached its highpoint.

Single-detached sector faces weaker demand in 2009

The single-detached sector will record 1,450 starts in 2009, down 25 per cent from 2008 before rebounding to 1,550 starts in 2010. Builders have reported a slower pace of sales through the first quarter of 2009 and are expressing concern about whether the weaker sales performance will continue through the year.

Despite the reduction in starts in 2009, there will be an ample supply of new homes available. At the end of the first quarter, there were 220 complete and unabsorbed single-detached homes available, an increase of 57 per cent from the end of March 2008. In addition, there are 947 units under construction, in-line with 2008 levels, but well above the average number of such units since 2000. While most of those homes under construction are pre-sold, those that remain unsold may also find their way into inventory upon completion in 2009.

Despite fewer starts over the course of the first quarter, total supply levels have yet to decline by the same degree. March saw the first decline in absorptions of 2009 on a year-over year basis, leading to the relatively constant, and elevated, levels of supply.

Demand for new single-detached homes has declined since October and has yet to display signs of improvement. While construction has begun on 404 single-detached units through the first four months of 2009, a decline of 26 per cent, over the same period a year earlier, it belies the fact that the contracts for those homes were almost universally signed before October 2008. Until late last year, builders were operating at, or near, capacity, pushing some starts into 2009. A source of downside risk exists in the second half of 2009 if builders remain unable to attract new buyers to their showhomes.

While the low interest rate environment will provide some stimulus to demand, the weak employment growth outlook and current economic uncertainty will remain an intervening factor in the decision-making process. Meanwhile, the increasing price gap between the average new and resale home may be too great for some buyers to bear. Conversations with builders have revealed that consideration is being given to providing a more modestly priced product that narrows the gap to some degree.

A return to modest price gains for new homes

Price growth of single-detached homes, which had been increasing at near double-digit rates for the last four years, will moderate substantially in 2009 due to weaker demand. The price of the average new single-detached home in Winnipeg will reach $365,000 in 2009, up 4.5 per cent from the previous year. To the extent that builders are able to narrow the price gap between average new and resale homes in the City, there is potential for some price declines should the average new home begin to include fewer amenities and smaller square footage.

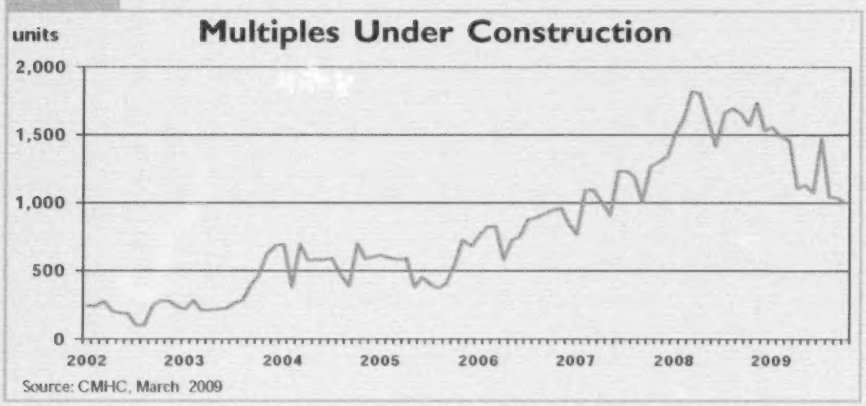
The New House Price Index (NHPI) measures the increase in the price of a home where the specifications remain the same between two consecutive periods. In Winnipeg, the NHPI is expected to grow by two per cent in 2009, roughly in line with the rate of inflation.

Multi-family builders facing elevated inventories

Although subject to substantial volatility, multi-family starts will decline by 31 per cent in 2009, to 750 units. This should lead to a reduction in the number of units under construction and in inventory (those completed and not yet absorbed). Provided this occurs, there will be a modest rebound in construction in 2010.

While under construction counts for multi-family dwellings are elevated by historical standards, they have been declining for more than a full calendar year. Unlike the single-detached market, absorptions of multi-family units have remained high, allowing the market to begin clearing its excess inventory. However, with almost 1,300 units either under construction or complete and unabsorbed, a return to normal levels of supply is several quarters away.

Figure 2



Source: CMHC, March 2009

In light of the high inventory levels, builders have become highly sensitive to the price point of new units being brought to market. As such, the average condo price of a unit that will start in 2009 will more closely mirror average single-detached resale prices.

Like the resale market, demand for most multi-family units has remained strong. Absorptions in the first quarter of 2009 were three per cent higher than the same period in 2008, with demand coming from both condominium buyers and those seeking rental accommodations. Those units that are complete and unabsorbed are predominantly condominiums in the highest price point.

In light of six consecutive years of strong price growth in the resale market, prospective homebuyers are now able to consider a new condominium as a starter home for the first time in a generation. Traditionally, first-time buyers in Winnipeg have looked to the single-detached resale market for their homes. To the extent that condominium builders are able to compete on price with the average resale home in Winnipeg, there is likely to continue to be strong demand for their product.

RESALE MARKET

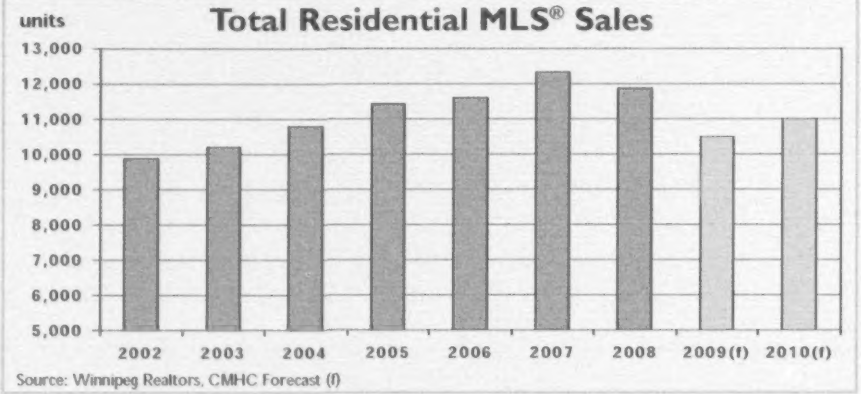
Sales of existing homes buoyed by activity in lower price points

Sales of existing homes will move off their elevated levels from the last three years, returning to conditions more in line with historical averages. The 10,500 units that will be sold in 2009 represent an 11 per cent decline from 2008, but are in line with the ten year average of 10,751. The annual average price will move slightly below the 2008 level, although modest month-over-month price growth is expected throughout much of the year. Sales will rebound to 11,000 in 2010.

While the supply of active listings has moved substantially off its record lows at the beginning of 2008, reaching 2,066 units in March on a seasonally adjusted basis, it remains below the fifteen-year average level of 2,122 active listings. Listings will continue a slow move upward, but remain well within historical boundaries through the course of 2009 and into 2010.

As is the case with listings, demand for existing homes has moved off the record, or near record, levels of 2008, but remains well within long-term averages. On a year-over-year basis, sales were down 7.5 per cent in the first quarter of 2009, reaching, 1,991 units.

Figure 3



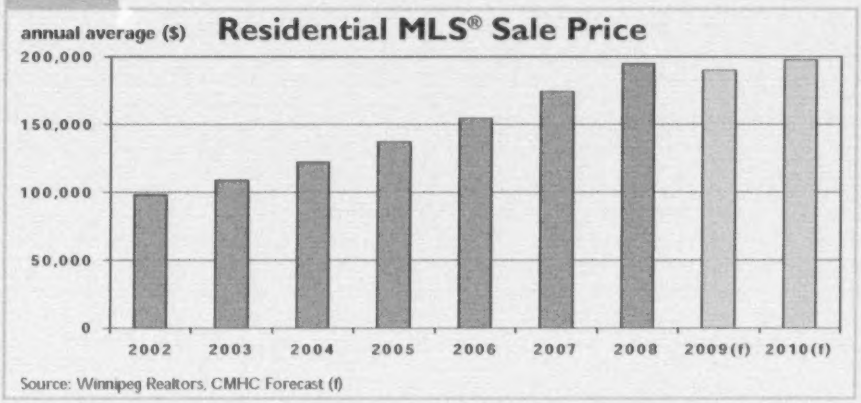
Source: Winnipeg Realtors, CMHC Forecast (f)

While overall demand has weakened on a year-over-year basis, demand has not wavered in certain price points. In January, activity in homes priced below $175,000, remained as robust as it has since economic turmoil began in October 2008. Homes priced above $175,000 bore the brunt of the slowdown in demand. February and March, however, saw the return of buyers to the market for homes priced below $250,000. The majority of the decline in sales is in homes priced well above the average for resale homes in Winnipeg, where sales activity has remained well below 2008 levels. As buyers return to the market for higher-priced resale homes, they will also begin to consider the new home market again.

A final source of demand in the resale market are buyers who might have considered purchasing a new home in 2008, but are now more comfortable with the lower price point of a resale home. This substitution effect will remain in place as long as builders struggle to sign new contracts in 2009 and new prices remain elevated.

The Winnipeg CMA remains firmly in balanced market conditions and shows little indication of changing course. Two measures of the balance between supply and demand, the sales-to-active listings ratio and the sales-to-new listings ratio, have fallen from extremely high levels one year ago to just over 50 per cent at the end of March. As a result, the supply of homes available in the resale market has moved from one month to about two months, also indicative of a balanced market.

Figure 4



Source: Winnipeg Realtors, CMHC Forecast (f)

With a growing population and few available rental units to house them, residents of Winnipeg will continue to demand home ownership in the lower price ranges. As such, most segments of the resale market will remain buoyant, even if the return of the buyer to the higher end of the price spectrum takes several months.

Resale price growth moderates

Despite national and international economic conditions, the average, seasonally adjusted selling price of homes in Winnipeg has risen every month since November 2008. While a large share of the increase is explained by the compositional movements detailed below, modest price growth is to be expected in a balanced market environment.

The change in resale prices is being heavily influenced by the shifting composition of the homes being sold. Just as the removal of buyers looking for homes priced at more than $175,000 led to a sharp decline in the average sale price in the last quarter of 2008, the return of buyers up to $250,000 has pushed the average selling price up in February and March. As a result, there remains some upside risk to the price forecast should buyers at every price point return to the marketplace and shift the composition further.

While resale prices will move upward for much of 2009, the average price for the year will finish below 2008 levels, reaching $190,000. This is due to the sharp downturn in price that occurred in the last quarter of 2008. Given the lower handoff from the end of 2008, this year's annual rate of resale price growth will appear artificially weak.

RENTAL MARKET

Vacancy rates remain at record low levels in 2009

The vacancy rate in Winnipeg will remain near record low levels throughout the forecast period. The conditions responsible for the most

recently available vacancy rate of one per cent will remain virtually unchanged through 2010. As a result, the vacancy rate will remain at one per cent in 2009 before moving modestly higher in 2010 to 1.2 per cent.

While construction of new purpose-built apartment units has slowed considerably over the last 18 months, the Winnipeg CMA will see rare supply additions from two sources in 2009. Since 2006, there have been more than 1,700 rental units started. As those projects reach completion over the forecast period they will add to the current rental stock.

In addition, historically elevated inventory levels for condominium developers have led some to consider switching to rental tenure in light of the competition they are facing for potential purchasers of their condominium units. As long as inventory levels remain elevated, developers will have incentive to consider the switch in tenure.

For 14 of the last 16 years, removals from the rental market universe in Winnipeg have outweighed additions. That will change in 2009 as the number of units removed will remain modest compared to the additions. Condominium conversions will not be as prevalent as they have in the past, though there will be some buildings whose owners will remove them from the rental pool for that purpose. In addition, the City of Winnipeg will continue to push for the demolition of boarded up or condemned buildings as part of its overall strategy for urban renewal.

Figure 5

Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

Demand for rental units will remain strong as thousands of international immigrants continue to make Winnipeg home. The 5,700 new Winnipegers, most of them from international sources, expected in 2009 represent almost 2,400 new households. Since international immigrants have a higher propensity to be renters, the demands they place on rental housing will only grow over the forecast period.

An offsetting factor to the elevated migration levels is the loss of tenants to homeownership. There will be a modest removal of demand from the rental market, as some renters, particularly those renting units at a higher price point, make the move to home ownership. Despite price growth in excess of ten per cent in the resale market for each of the last six years, the average resale home remains relatively affordable on a national basis. As such, an entry level home is an attainable goal for those currently able to afford above average rents. The number of renters making such a substitution, however, will be small compared to the influx of renters looking to move in to the vacated units.

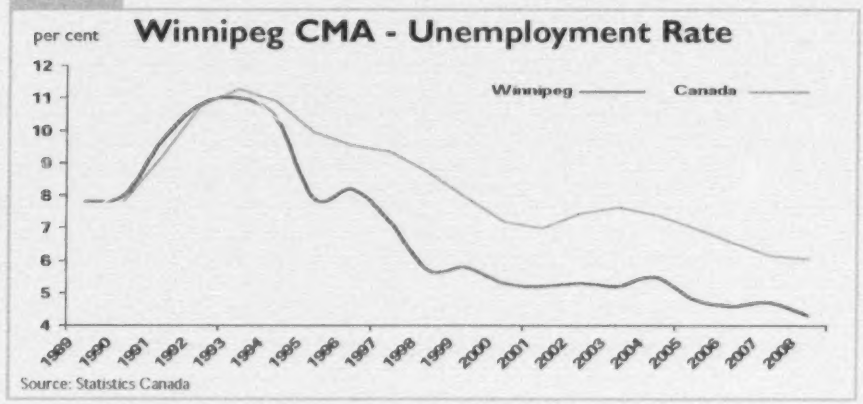
Because of the tight rental market conditions, average rents in 2009 will continue to move upward slightly, surpassing the Residential Tenancies Branch's mandated maximum of two per cent. Since landlords can capture the entire two per cent amount without an appreciable loss of tenants in the current rental market environment, virtually all units will see the maximum allowable increase. In addition, those units built after 2002 are exempt from the rent guidelines and may achieve increases beyond those where the mandate applies. However, since the newer units have an average vacancy rate of 3.8 per cent, the ability of landlords to command higher rents is somewhat diminished.

Landlords may also apply for rent increases above the maximum if they have conducted substantial renovations to the rental building. As a result the, the average rent increase for a two-bedroom apartment in 2009 will be four per cent.

ECONOMIC OUTLOOK

Employment growth weak in 2009 and 2010, but unemployment rate still low by national standards

Figure 6



Source: Statistics Canada

Winnipeg, like the rest of the province, will not be immune to global economic slowdown. Economic conditions will appear weaker compared to previous years, but labour and demographic trends continue to support a solid pace of economic activity and homeownership demand.

As has been the case for several years, Winnipeg will reap the benefits of robust migration levels to the province. With 5,700 immigrants choosing to call Winnipeg home in 2009, many of them business people or professionals, the city will continue to experience population growth at a rate not seen in a generation. The implications for the housing market are significant, as those newcomers represent almost 2,400 households that will need to find accommodation. With starts forecast to slip below the rate of household formation in 2009, it is clear that a drawdown of the excess inventory will be required to accommodate the new households.

While its magnitude pales in comparison to the number of international immigrants, Winnipeg may also enjoy a net influx of inter-provincial immigrants in 2009 as the local economy outperforms many other jurisdictions in the country. Such a shift, while small in number, would represent the first time on record that the City enjoyed such a position.

Despite some modest job loses in the first quarter of 2009, Winnipeg still enjoyed a seasonally adjusted unemployment rate of 4.9 per cent, one of the lowest in the country. The current economic uncertainty will ensure that job growth will be largely stagnant over the forecast period. Meanwhile, the additions to the labour force in the form of new immigrants and natural growth will push the unemployment rate upward. The increase, however, will leave both the city and the province with an unemployment rate well below the national average.

Employment in the industrial construction sector is poised to remain strong, given the number of major capital projects underway in the CMA. The outlook for starts, however, suggests that job losses in residential construction may come to the fore in the second part of the year, particularly as units currently under construction reach completion.

A number of sizeable private-sector projects are planned for Winnipeg over the forecast period. Construction will begin on the inland port centred around Winnipeg Airport. Infrastructure work surrounding the IKEA complex in Southwest Winnipeg will also begin in earnest. Winnipeg has also seen construction begin on the $265 million Human Rights Museum at the Forks which will serve to provide construction employment over the 36-month build period and be a major tourist attraction in the years following its completion.

Government spending in 2009 will be focused on several major capital projects and any flood remediation work that needs to be done. While Winnipeg and the surrounding Rural Municipalities were far better prepared this spring than in 1997, water levels in the Red River Valley were higher in 2009 and substantial damage did result. Both provincial and federal money will flow to the remediation effort. In addition,

development of a light transit corridor, completion of the Winnipeg Airport expansion, as well as more than $100 million in road and bridge work highlight government spending in the CMA.

The export sector will face challenges in 2009 as prices for many commodities are well below their recent highs. Base metal and oil prices, in particular, have slipped significantly over the last year and will remain a drag on total exports, even as volumes remain elevated. While order books at local bus and aerospace manufacturers remain full, that activity will not be sufficient to boost local exports in 2009.

MORTGAGE RATE OUTLOOK

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

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Forecast Summary
Winnipeg CMA
Spring 2009

	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	11,594	12,319	11,854	10,500	-11.4	11,000	4.8
MLS® New Listings	25,393	41,030	40,173	30,000	-25.3	28,000	-6.7
MLS® Average Price ($)	154,607	174,203	196,940	190,000	-3.5	197,500	3.9
New Home Market							
Starts:							
Single-Detached	1,737	1,870	1,930	1,450	-24.9	1,550	6.9
Multiples	1,040	1,501	1,079	750	-30.5	800	6.7
Starts - Total	2,777	3,371	3,009	2,200	-26.9	2,350	6.8
Average Price ($):							
Single-Detached	264,401	307,244	349,154	365,000	4.5	382,000	4.7
New Housing Price Index (% chg.)	8.5	9.4	11.8	2.0	-	2.5	-
Rental Market							
October Vacancy Rate (%)	1.3	1.5	1.0	1.0	-	1.2	-
Two-bedroom Average Rent (October) ($)	709	740	769	800	-	825	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-	5.29	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-	5.94	-
Annual Employment Level	382,200	390,500	395,900	389,700	-	390,500	-
Employment Growth (%)	2.0	2.2	1.4	-0.2	-	0.2	-
Unemployment rate (%)	4.8	4.6	4.7	5.2	-	5.5	-
Net Migration [1]	1,376	3,557	6,250	6,000	-4.0	6,500	8.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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